

LEGAL SERVICES CORPORATION
FINANCIAL STATEMENTS
SEPTEMBER 30, 2000 and 1999
Together with Independent Auditor's Report

LEGAL SERVICES CORPORATION

SEPTEMBER 30, 2000 AND 1999

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INDEPENDENT AUDITOR'S REPORT

Inspector General and Board of Directors
Legal Services Corporation

We have audited the accompanying balance sheets of Legal Services Corporation (the Corporation) as of September 30, 2000 and 1999 and the related statements of support, revenue and expenses and changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 2000 and 1999 and the results of its operations and changes in its fund balance and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated November 23, 2000 on our consideration of the Corporation's compliance and internal controls over financial reporting and compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

November 23, 2000
Washington, D.C.

LEGAL SERVICES CORPORATION
BALANCE SHEETS
SEPTEMBER 30, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 3)	\$ 54,512,955	\$51,674,689
Accounts receivable	20,331	25,117
Prepaid expenses and deposits	<u>315,069</u>	<u>326,375</u>
Total current assets	<u>54,848,355</u>	<u>52,026,181</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	2,289,739	1,909,657
Less accumulated depreciation and amortization	<u>(1,198,150)</u>	<u>(1,054,665)</u>
Net property and equipment	<u>1,091,589</u>	<u>854,992</u>
Total assets	<u>\$ 55,939,944</u>	<u>\$52,881,173</u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Grants and contracts payable	\$ 50,823,681	\$48,639,453
Accounts payable	489,482	764,518
Accrued vacation and other liabilities	611,375	441,059
Deferred rent credit - current portion	190,039	190,039
Deferred revenue	<u>1,599,831</u>	<u>22,807</u>
Total current liabilities	53,714,408	50,057,876
Deferred rent credit - non-current portion	<u>126,692</u>	<u>316,731</u>
Total liabilities	<u>53,841,100</u>	<u>50,374,607</u>
FUND BALANCE		
Federal appropriation (Notes 2 and 7)		
Designated	153,767	438,231
Undesignated	853,488	1,213,343
Net investment in property and equipment	<u>1,091,589</u>	<u>854,992</u>
Total fund balance	<u>2,098,844</u>	<u>2,506,566</u>
Total Liabilities and Fund Balance	<u>\$55,939,944</u>	<u>\$52,881,173</u>

The accompanying notes are an integral part of these financial statements.

LEGAL SERVICES CORPORATION
STATEMENTS OF SUPPORT, REVENUE AND EXPENSES
AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
SUPPORT AND REVENUE		
Federal appropriation	\$303,841,000	\$300,000,000
Less: Deferred Technology Initiative Appropriation	(1,553,014)	-
Grant revenue (Note 4)	885,991	850,827
Interest and other income	<u>388,520</u>	<u>506,066</u>
Total support and revenue	<u>303,562,497</u>	<u>301,356,893</u>
 EXPENSES		
Program activities:		
Grant and contracts (Note 5)	292,214,190	289,976,566
Supporting activities:		
Management and administration (Notes 6 and 8)	<u>11,756,029</u>	<u>10,529,672</u>
Total expenses	<u>303,970,219</u>	<u>300,506,238</u>
Excess (Deficit) of support and revenue over (under) expenses	(407,722)	850,655
Fund balance, beginning of year	<u>2,506,566</u>	<u>1,655,911</u>
Fund balance, end of year	<u><u>\$ 2,098,844</u></u>	<u><u>\$ 2,506,566</u></u>

The accompanying notes are an integral part of these financial statements.

LEGAL SERVICES CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (Deficit) of support and revenue (under) over expenses	\$ (407,722)	\$ 850,655
Adjustments to reconcile excess (deficit) of support and revenue over (under) expenses to net cash provided by (used in) operating activities:		
Depreciation and amortization	158,200	170,815
Loss on disposal of assets	4,323	41,878
(Increase) Decrease in accounts receivables	4,786	(11,258)
(Increase) Decrease in prepaid expenses and deposits	11,306	(21,652)
Increase in grants and contracts payables	2,184,228	2,838,949
Increase in accounts payable	275,036)	42,278
Increase in accrued vacation and other liabilities	170,316	37,418
Decrease in deferred rent credit	(190,039)	(190,039)
Increase (Decrease) in deferred revenue	<u>1,577,024</u>	<u>14,173</u>
Net cash provided by (used in) operating activities	3,237,386	3,773,217
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of fixed assets	<u>(399,120)</u>	<u>(434,074)</u>
Net increase (decrease) in cash	2,838,266	3,339,143
Cash and cash equivalents, beginning of year	<u>51,674,689</u>	<u>48,335,546</u>
Cash and cash equivalents, end of year	<u><u>\$54,512,955</u></u>	<u><u>\$51,674,689</u></u>
SUPPLEMENTAL DISCLOSURE OF NON CASH FLOW INVESTING ACTIVITIES:		
Write-off of fixed assets disposed of with related accumulated depreciation of \$14,714 and \$48,358, respectively	<u>\$ 19,037</u>	<u>\$ 123,074</u>

The accompanying notes are an integral part of these financial statements.

LEGAL SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 NATURE OF THE CORPORATION:

The Legal Services Corporation (the Corporation) is a private nonmembership District of Columbia nonprofit corporation, established by Congress in the Legal Services Corporation Act of 1974, Public Law 93-355, and amended in 1977 by Public Law 95-222. The purpose of the Corporation is to provide financial support to independent organizations that directly provided legal assistance in noncriminal proceedings or matters to persons financially unable to afford such counsel.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following is a summary of significant accounting policies utilized by the Corporation.

*Basis of Accounting: (fund accounting)*

The accounts of the Corporation are maintained on the accrual basis of accounting. To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of fund accounting whereby resources are classified for accounting and reporting purposes into funds established to their activities and objectives.

The federal appropriations fund includes amounts received and expended in furtherance of the Corporation's objective, including general operations. The property fund represents investments in property, equipment and computer software, net of accumulated depreciation and amortization. Capital assets purchases or proceeds from their sale are recorded by transfers from or to the federal appropriations fund. Separate accounts are maintained for each fund; however, for reporting purposes they are combined in the accompanying financial statements.

Federal appropriations fund balances have been stated as either designated or undesignated. Designated fund balances represent amounts which have been earmarked by the Board of Directors for continuing programs and administrative activities. Undesignated fund balances represent appropriated federal carryover and other operating excess which are available for future use at the discretion of the Board of Directors.

*Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results may differ from those estimates.

Support and Revenue

The federal appropriations are deemed to be earned and reported as support and revenue in the period designated by Congress. The appropriations remain available until expended.

Deferred Technology Initiative

Deferred technology initiative funding represents federal appropriations committed to specific projects that were not contracted for as of September 30, 2000.

Grant Refunds

Grantees who have not complied with the requirements of the Legal Services Corporation Act of 1974 and implementing regulations may be subject to actions that result in a recovery of grant funds. Sources of grant refunds generally include recoveries of disallowed costs, excess fund balances, unexpended funds on Private Attorney Involvement programs and sanctions imposed by the Corporation for failure to comply with other regulatory requirements.

Grants and Contracts to Recipients

Liabilities, expenses and revenues related to grant and contract awards are recognized when the awarding document is fully executed. Grant awards are made to recipients on a calendar year basis from appropriations received by the Corporation for its fiscal year.

Property and Equipment

Furniture and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets of five to ten years.

Income Taxes

The Corporation is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia, except for unrelated business income. The Corporation had no unrelated business income for 2000 and 1999, and accordingly, no provision for income taxes has been made in the accompanying financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents consist of cash on deposit at financial institutions and undisbursed appropriations which constitute spending authority that remain available in the Corporation's account held by the U.S. Treasury.

Cash consists of the following:

Cash in Financial Institutions	<u>\$ 26,376,846</u>	<u>\$26,505,175</u>
Cash in U.S. Treasury	<u>28,136,109</u>	<u>25,169,514</u>
Total	<u>\$ 54,512,955</u>	<u>\$51,674,689</u>

NOTE 4 - GRANT REVENUE

The Corporation was awarded grants from the U.S. Court of Veterans Appeals for the purpose of furnishing legal assistance to veterans. Grant revenue for the years ended September 30, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
U.S. Court of Veterans Appeals	<u>\$ 885,991</u>	<u>\$850,827</u>

NOTE 5 GRANT AND CONTRACTS EXPENSE

Grant funding provided to the Legal Services Corporation, pursuant to Public Law 105-119, was for basic field programs. Grant and contracts expense consists of the following:

	<u>2000</u>	<u>1999</u>
Basic field programs	\$288,607,360	\$289,000,000
U.S. Court of Veterans Appeals fund	885,991	850,827
Technology Initiatives	2,696,986	-
Grant from other sources	51,500	214,500
Grant refunds/recoveries	<u>(27,647)</u>	<u>(88,761)</u>
Total	<u>\$292,214,190</u>	<u>\$289,976,566</u>

NOTE 6 MANAGEMENT AND ADMINISTRATIVE EXPENSES

Management and administrative expenses consist of the following:

	2000	1999
	<u>\$ 7,179,855</u>	<u>\$ 6,136,806</u>
Personnel Compensation	186,010	124,478
Temporary Employee Pay	1,497,943	1,157,569
Consulting	826,318	782,830
Travel and Transportation	133,653	123,255
Communications	1,296,518	1,252,000
Occupancy Cost	71,767	35,780
Printing and Reproduction	457,166	530,006
Other Operating Expenses	<u>343,396</u>	<u>608,329</u>
Capital Expenditures	11,992,626	10,751,053
Subtotal	158,200	170,815
Depreciation and Amortization	4,323	41,878
Loss on Disposal of Assets	<u>(399,120)</u>	<u>(434,074)</u>
Purchase of Assets	<u>\$11,756,029</u>	<u>\$10,529,672</u>
Total Management and Administration		

NOTE 7 FUND BALANCE

The Board of Directors through its fund allocation process has designated \$153,767 and \$438,231 of the federal appropriations fund balance for continuing programs and administrative activities as of September 30, 2000 and 1999, respectively.

NOTE 8 RETIREMENT PLANS

Pursuant to the Legal Services Corporation Act, all officers and employees hired before October 1, 1988 are participants in the Civil Service Retirements System, although they are neither officers nor employees of the federal government. The Corporation makes contributions at rates applicable to agencies of the federal government. Eligible employees may contribute up to 5% of their pretax earnings to the Federal Thrift Savings Plan.

All officers and employees hired after September 30, 1988 are ineligible for the Civil Service Retirement System, but are eligible to participate in the Corporation's pension and thrift plan, which is a tax deferred annuity plan subject to Section 403(b) of the Internal Revenue Code. Individuals can make contributions up to the maximum permitted by law. Prior to July 1, 1999, the Corporation matched the first 1% contributed by the employee. Effective July 1, this percentage was increased to 2.51%. In addition, the Corporation contributes 6% of each eligible employee's salary, regardless of their participation, to the maximum permitted under federal income tax regulation.

The Corporation's contributions to these plans for fiscal years 2000 and 1999 were \$454,626 and \$354,422, respectively. These amounts are included in supporting activities for management and administration expenses. The Corporation also offers a tax deferred annuity savings plan for eligible employees. No contributions are made to this plan by the Corporation.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Leases

The Corporation's lease for its headquarters office space provides for increases in annual base rent based on consumer price index increases, and payment of a portion of the building operating expenses. The lease commenced on June 1, 1992 and includes two renewal options for five years each and also provided for rent abatement for the first twelve months of the lease term. Future minimum lease payments required under this lease are as follows:

	<u>2000</u>	<u>1999</u>
September 30, 2000		\$1,274,340
2001	1,324,956	1,274,340
2002	<u>883,304</u>	<u>849,560</u>
Total	<u>\$2,208,260</u>	<u>\$3,398,240</u>

Total minimum future payments have not been reduced by \$338,884 of sublease rentals to be received in the future under a noncancellable sublease.

	<u>2000</u>	<u>1999</u>
Gross rental expense	\$1,310,391	\$1,224,777
Sublease	<u>(200,827)</u>	<u>(200,326)</u>
Net rent expense	<u>\$1,109,564</u>	<u>\$1,024,451</u>

Grants and Contracts

The Corporation receives its funding from appropriations by Congress and grants from federal agencies and, accordingly, may be subjected to audits from the respective agencies. In addition, the Corporation provides significant funding to several independent organizations which are subjected to their own independent audits and audits by the Corporation.

The Corporation's management does not expect any significant adjustments as a result of audits from federal agencies, should they occur, or from the audits of the subgrantee independent organizations.

**REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Inspector General and Board of Directors
Legal Services Corporation

We have audited the financial statements of Legal Services Corporation (the Corporation) as of and for the year ended September 30, 2000, and have issued our report thereon dated November 23, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Inspector General, the Board of Directors and management and others within the organization. However, this report is a matter of public record and its distribution is not limited.

November 23, 2000
Washington, D.C.